

CDIAC

**CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION**

DEBT BASICS SEMINAR: COSTS OF ISSUANCE (PART II)

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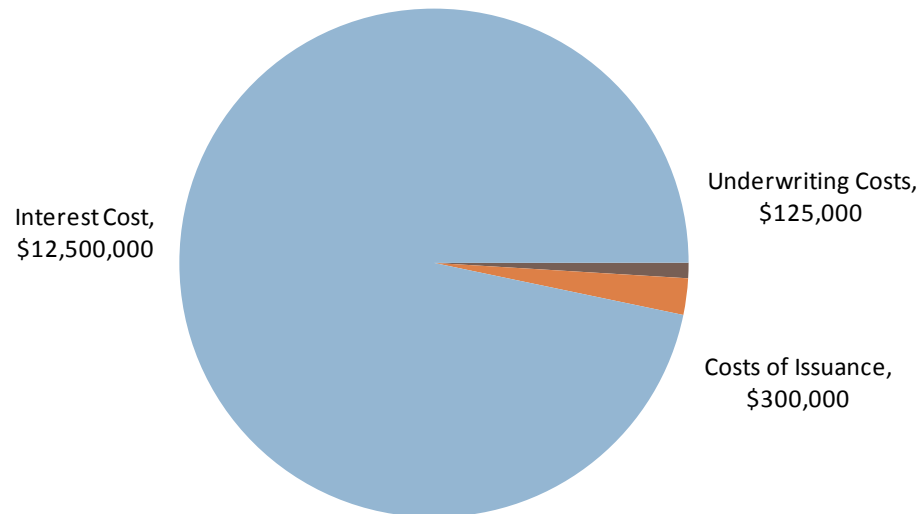
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Total Financing Costs

- Interest expense is the largest component of costs in a bond financing.

Estimated Financing Costs on a \$25 million Bond Issuance



Estimated for a typical \$25 million bond issuance with a 5% borrowing rate for 25 years and \$5 per bond for underwriter cost.

Financing Team Members

- Each financing team member plays a role in the bond issuance process and in helping lower the interest expense on your financing.
 - Financial Advisor: Serves as the “quarterback” for the financing and an advocate for public agencies to help reduce interest expense. Only financing team members with a fiduciary duty owing to issuer.
 - Bond Counsel: Provides a bond opinion to allow issuers to borrow at tax-exempt rates.
 - Disclosure Counsel: Puts together a prospectus with issuer and bond information and provides opinion for investors.
 - Underwriter: Identifies investors and markets bonds to set borrowing rates on the bonds.
 - Rating Agencies: Provides credit analyses to help investors evaluate risk.
 - Credit Enhancers: Bond insurance, LOC banks, and liquidity providers provide an additional level of security in a transaction.
 - Others: Paying agent, trustees, title insurer, printers and other financing team members also contribute in the bond issuance process.

Upfront Financing Costs

- Attention to fees charged by financing team members is an important component of prudent debt issuance.
 - Issuers should strive to achieve quality service for a fair price.
 - Fees for similar services can often be dramatically different.
 - Comparing a proposed fee against those for other similar transactions can be helpful to determine an appropriate level.
 - CDIAAC and other information sources such as the official statement can provide some information on financing costs for other transactions.

CDIAC Database

- Issuers can access the CDIAC database through their website and can obtain information about every financing in California, including:
 - Issuer Name
 - Sale Date
 - Par Amount
 - Type of Deal
 - Financing Team Members

- CDIAC also provides financing fee information by request.

Establishing Parameters

- When evaluating the CDIAC information, it helps to set parameters to narrow down the data set to 10-20 relevant and applicable bond issuances.
 - Timing
 - Geography
 - Size
 - Type of Deal (Structure + Credit)

Example

- We've put together data for some of our school district clients to help them evaluate the fees for their financing team members.

Transaction	Sale Date	Type of Sale	Principal	FA Fee	UW Fee	UW Fee per Bond	BC Fee	DC Fee
A	Feb 2011	Neg	\$40,725,086	N/A	\$300,061	7.37	\$89,274	\$15,000
B	Mar 2011	Neg	\$10,998,582	\$72,500	\$82,191	7.47	\$29,700	\$12,000
C	Apr 2011	Neg	\$25,499,600	\$145,000	\$122,679	4.81	\$35,867	\$20,000
D	Apr 2011	Neg	\$15,163,985	N/A	\$166,805	11.00	\$93,000	*
E	May 2011	Neg	\$38,073,563	\$187,245	\$177,042	4.65	\$94,500	*
F	May 2011	Neg	\$15,700,000	\$62,050	\$138,224	8.80	\$38,500	*
G	May 2011	Neg	\$19,999,429	\$75,000	\$124,749	6.24	\$47,500	\$20,000
H	Jun 2011	Neg	\$37,790,000	\$90,100	\$226,740	6.00	\$51,000	\$12,000
I	Jun 2011	Neg	\$14,900,000	\$66,150	\$126,650	8.50	\$30,000	\$20,000
J	Jun 2011	Neg	\$49,549,400	\$95,000	\$136,563	2.76	\$70,000	\$43,559
K	Jul 2011	Neg	\$37,999,106	\$77,500	\$227,995	6.00	\$41,700	\$27,800
L	Jul 2011	Neg	\$17,305,000	\$40,000	\$60,566	3.50	\$47,500	*

* Disclosure counsel fee may be included with bond counsel fee.

Financing cost data for a number of California school district general obligation bond issuances with par amounts between \$10 and \$50 million in 2011. Source: California Debt and Investment Advisory Commission (CDIAC) database and Official Statements.

Things to Keep in Mind

- Although the CDIAC data base is a great source of information, there are a number of things to keep in mind when evaluating the data.
 - Complexity: Data does not necessarily show the true complexity of a bond transaction.
 - Additional Fees: Fee shown may not include all fees paid to financing team, such as retainers or hourly consulting fees.
 - Bundled Services: Fee may cover other non-transaction services that are “charged” to the bond issuance.
 - Self-Reporting: Financing team members self-report financing fee information to CDIAC sometimes leading to inaccurate or missing data.
 - Quality of Service: Data does not reflect the quality of service received by the issuer.

Take Aways

- Use of publicly available data can be helpful in determining the appropriate fee levels for your financing team members.
 - ▣ Using available resources: the CDIAC database and other publicly available sources of information such as official statements can give you a general idea of the fees charged on similar transactions.
 - ▣ Analyzing data: It is helpful to narrow your database to a reasonable number of relevant comparable sales to evaluate your proposed fees.
 - ▣ Reaching out for assistance: Organizations like CDIAC, informed parties such as your County, or your financial advisor may be able to assist you in analyzing the data available.
 - ▣ Achieving a fair price: The goal is to achieve financing costs on your bond issuance that are fair and competitive for the quality of service received.
 - ▣ Pushing for more transparency: It's our belief that more transparency with fees can help public agencies receive competitive and fair prices on their bond transactions.

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